

MACOMB TOWNSHIP ACT 345 FIRE RETIREMENT SYSTEM BOARD
MEETING HELD ON WEDNESDAY, DECEMBER 10, 2014
AT 10:00 A.M.

LOCATION: MACOMB TOWNSHIP MEETING CHAMBERS
54111 BROUGHTON, MACOMB, MI 48042

PRESENT: GARY ROSS, CHAIRMAN
ADAM MUNRO, SECRETARY
KAREN GOODHUE, TREASURER

ABSENT: PETER PROVENZANO, MEMBER
PAUL MARKOWSKI, MEMBER

Also in Attendance: Thomas C. Michaud, P.C.
William Messner, Morgan Stanley
Barbara Kubes, Human Resource Dept.
Stacy VanReyendam, Finance Manager
John Brogowicz, Human Resource Director
James R. Gelios, Deputy Clerk

1. CALL MEETING TO ORDER

Chairman ROSS called the meeting to order at 10:00 a.m.

2. Pledge of Allegiance

3. Roll Call

Secretary MUNRO called the roll; all members present except Members PROVENZANO and MARKOWSKI.

4. Approval of Agenda

MOTION by MUNRO seconded by GOODHUE to approve the agenda as presented, with an add-on; item 10b.

MOTION Carried.

5. Approval of Meeting Minutes

MOTION by MUNRO seconded by GOODHUE to approve the meeting minutes of September 10, 2014 as presented.

MOTION Carried.

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6. Treasurer's Report

Treasurer GOODHUE gave her report to the Board members, indicating the current balance in the available funds is \$16,977.43. This balance will grow later when taxes are collected.

MOTION by MUNRO seconded by GOODHUE to accept the Treasurer's Report as presented.

MOTION carried.

7. Morgan Stanley Report

William Messner, from Morgan Stanley, gave his quarterly report to the Board members. He indicated the four manager funds are doing well and that no changes are needed at this time.

MOTION By GOODHUE seconded by MUNRO to receive and file this report as presented.

MOTION Carried.

8. Old Business

a. 2014 Act 345 Actuarial

Ms. Sandra Rodwan, actuarial, gave her report to the Board members. She indicated that the pension plan was in excellent condition, with a 2.4 million market value. Legal Counsel Thomas Michaud made some suggestions regarding a summary page be added to make interpreting the results easier to read.

MOTION by GOODHUE seconded by MUNRO to accept the actuarial report as presented.

MOTION carried.

b. Actuarial Funding Policy

Chairman ROSS discussed this item with Board members.

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MACOMB TOWNSHIP ACT 345 FIRE RETIREMENT SYSTEM

ACTUARIAL FUNDING POLICY

WHEREAS, the Macomb Township Act 345 Fire Retirement System (“Retirement System”) is established and administered pursuant to the provisions of Public Act 345 of 1937, as amended (MCL 38.551 *et seq.*), applicable collective bargaining agreements, and applicable state and federal laws including, but not limited to Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 *et seq.*], and

WHEREAS, the Board of Trustees of the Retirement System (“Retirement Board”) is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Retirement Board, in consultation with its Actuary, has an obligation to establish the economic and demographic assumptions to be utilized in performing the required actuarial valuation of the Retirement System and in determining the required annual employer contribution to the Retirement System, and

WHEREAS, the Retirement Board is aware of upcoming changes to the accounting and reporting standards approved by the Governmental Accounting Standards Board (GASB) for public pension plans, and

WHEREAS, the Retirement Board wishes to establish a formal Actuarial Funding Policy addressing the funding objectives and actuarial assumptions to be utilized in determining the funding status of the Retirement System, therefore be it

RESOLVED, that the Retirement Board hereby adopts the following Actuarial Funding Policy:

I. GENERAL

A. Purpose

- (1) In light of upcoming changes to the GASB financial accounting and reporting standards for public pension plans, the Board of Trustees of the Retirement System desires to establish a formal Actuarial Funding Policy

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to ensure the systematic funding of future pension obligations of the Retirement System.

B. Policy Objectives

- (1) Maintain adequate levels of assets sufficient to fund all benefits expected to be paid to members and beneficiaries when due.
- (2) Maintain stability of employer contributions rates, consistent with other funding objectives.
- (3) Support the public policy goals of accountability and transparency.
- (4) Monitor material risks to assist in any risk management strategies the Retirement Board deems appropriate.
- (5) Promote intergenerational equity. Each generation of members and employers should incur the cost of benefits for the employees who provide services to them, rather than deferring costs to future members and employers.
- (6) Provide a reasonable margin for adverse experience to offset risk.
- (7) Review the Plan's investment return assumption, potentially in conjunction with a periodic asset liability study and in consideration of the Retirement Board's risk profile.
- (8) Continue the systematic reduction of the Plan's Unfunded Actuarial Accrued Liabilities (UAAL).

II. LEGAL

A. Annual Actuarial Valuation

- (1) Section 20h(4) of Act 314 [MCL 38.1140h(4)], requires the Retirement System to have an actuarial valuation performed annually as follows:

Except as otherwise provided in this subsection, a system shall have an annual actuarial valuation with assets valued on a market-related basis. The actuarial present value of total projected benefits shall include all pension benefits to be provided by the system to members or beneficiaries pursuant to the terms of the system and any additional statutory or contractual agreements to provide pension benefits through the system that are in force at the actuarial

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valuation date, including, but not limited to, service credits purchased by members, deferred retirement option plans, early retirement programs, and postretirement adjustment programs. A system that has less than \$20,000,000.00 is only required to have an actuarial valuation as required under this subsection done every other year.

B. Annual Employer Contribution

- (1) The Retirement Board is required, pursuant to Section 20m of Act 314 [MCL 38.1140m], to annually certify the annual required contribution to be made by the employer as follows:

The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of any system shall confirm in the annual actuarial valuation required under section 20h and the summary annual report required under section 13 that each system under this act provides for the payment of the required employer contribution as provided in this section and shall confirm in the summary annual report that the system has received the required employer contribution for the year covered in the summary annual report. The required employer contribution is the actuarially determined contribution amount. An annual required employer contribution in a system under this act shall consist of a current service cost payment and a payment of at least the annual accrued amortized interest on any unfunded actuarial liability and the payment of the annual accrued amortized portion of the unfunded principal liability. For fiscal years that begin before January 1, 2006, the required employer contribution shall not be determined using an amortization period greater than 40 years. Except as otherwise provided in this section, for fiscal years that begin after December 31, 2005, the required employer contribution shall not be determined using an amortization period greater than 30 years. . . . In a plan year, any current service cost payment may be offset by a credit for amortization of accrued assts, if any, in excess of actuarial accrued liability. A required employer contribution for a system administered under this act shall allocate the actuarial present value of future plan benefits between the current service costs to be paid in the future and the actuarial accrued liability. The governing

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board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of a system shall act upon the recommendation of an actuary and the board and the actuary shall take into account the standards of practice of the actuarial standards board of the American academy of actuaries in making the determination of the required employer contribution.

III. POLICY

A. Actuarial Cost Method

- (1) The individual entry age normal actuarial cost method of valuation shall be utilized in determining actuarial accrued liability and normal cost with the following characteristics:
 - (a) the annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement; and
 - (b) each annual normal cost is a constant percentage of the member's year by year projected covered pay.
- (2) Differences in the past between assumed experience and actual experience (actuarial gains and losses) shall be factored into the actuarial accrued liability.
- (3) The normal cost shall be determined on an individual basis for each active member.

B. Asset Smoothing Method

- (1) The investment gains or losses of each valuation period, resulting from the difference between actual investment return and assumed investment return, shall be recognized annually in level amounts over a period not to exceed five (5) years in calculating the funding value of assets.

C. Amortization Method

- (1) A level percent of payroll amortization method shall be used to systematically pay off the unfunded actuarial accrued liabilities over an amortization period not to exceed 30 years.

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- (2) Unfunded liabilities associated with benefit changes or assumption changes may be separately funded over a period determined by the Retirement Board in consultation with its actuary.
- (3) Unfunded liabilities arising from benefit changes provided to retirees or in conjunction with early retirement incentive programs offered by the employer shall be separately funded over a period determined by the Retirement Board in consultation with its actuary.
- (4) In the event that the Retirement System's assets exceed its liabilities, all amortization schedules other than those related to benefit changes for retirees or early retirement incentive programs offered by the employer shall be considered completed, and employer contributions will be set based upon the normal cost and the completion of any remaining amortizations due to benefit changes for retirees or early retirement incentive programs offered by the employer, without regard to the overfunding status of the Retirement System.

D. Assumptions

- (1) The economic and demographic actuarial assumptions utilized to determine the contribution requirements and benefit values of the Retirement System shall be determined by the Retirement Board in consultation with its actuary, subject to the following limitations:
 - (a) The assumed rate of investment return shall not exceed 8.0%, compounded annually;

E. Funding Target

- (1) The targeted funded ratio of the Retirement System shall be 100%.
- (2) The employer contribution rate shall at least be equal to the normal cost unless the funded ratio of the Retirement System exceeds 120%.
- (3) A funding plan shall be developed by the Retirement Board in consultation with its actuary if the funded ratio of the Retirement System falls below 70%, which may include additional funding requirements.

F. Risk Management

- (1) Assumption Changes

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- (a) The actuarial assumptions utilized to determine the annual contribution requirements and valuations shall be those last adopted by the Retirement Board based on the most recent experience study and upon the advice and recommendation of the Retirement Board's actuary. The Retirement Board's actuary shall conduct an experience study at least once every five years. The results of the experience study shall be the basis for the actuarial assumptions recommended to the Retirement Board.
 - (b) The actuarial assumptions may be revised during the five-year period between experience studies if significant plan design changes or other significant economic events occur, as advised by the actuary.
- (2) Risk Measures. The following risk measures will be annually determined to provide quantifiable measurements of risk as it applies to the Retirement System.
 - (a) Funded ratio;
 - (b) Unfunded actuarial accrued liabilities – the years required to pay down the unfunded liabilities of the Retirement System based upon the current funding schedule;
 - (c) Total unfunded actuarial accrued liabilities as a percentage of total payroll;
 - (d) Total assets as a percentage of total payroll; and
 - (e) Total actuarial accrued liabilities as a percentage of total payroll.
- (3) Risk Control
 - (a) The Retirement Board shall carefully monitor the risk measures identified above and shall consider steps to mitigate risk, particularly as the funded ratio increases.

IV. REVIEW AND AMENDMENT

A. Periodic Review

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- (1) This Actuarial Funding Policy shall be reviewed no less frequently than once every five years in conjunction with the required experience study performed by the Retirement Board's actuary, and may be reviewed at any time in the Retirement Board's discretion.

B. Amendment

- (1) The Retirement Board, in consultation with its Actuary and Legal Counsel, may amend this Actuarial Funding Policy at any time as deemed necessary to address changes in the makeup, benefit structure and/or funding status of the Retirement System.

MOTION by GOODHUE seconded by MUNRO approve the Actuarial Funding Policy as presented.

MOTION carried.

9. New Business

a. MAPERS 2015 Membership

Chairman ROSS discussed this item with Board members.

MOTION by MUNRO seconded by GOODHUE to join MAPERS in 2015.

MOTION carried.

b. Investment Policy

Discussion between Board members and Legal Counsel suggesting the Investment Policy be reviewed annually to keep it updated.

c. 2015 Meeting Dates

Chairman ROSS indicated that the Act 345 meeting dates need to be changed to Thursday mornings to facilitate the attendance of two current members that cannot attend Wednesday mornings due to job obligations. He suggested the following dates: March 12, June 11, September 10 and December 10, 2015.

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MOTION by GOODHUE seconded by MUNRO to hold the ACT 345 meetings on Thursdays on the following dates: March 12, June 11, September 10 and December 10, 2015.

MOTION carried.

d. Payment of Bills

None.

10. Receive and File

- a. Fifth Third Investment Statement-October 2014.
- b. Captrust Request

MOTION by MUNRO seconded by GOODHUE to receive and file these two items.

MOTION carried.

11. Public Comments

None.

12. Board Comments

None.

13. Adjournment

MOTION by MUNRO seconded by GOODHUE to adjourn the meeting at 10:58 a.m.

MOTION carried.

Respectfully Submitted,

Gary Ross, Chairman/President

Adam Munro, Secretary